

**REPORT OF THE AUDIT OF THE
LEE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LEE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Lee County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$257,942 from the beginning of the year, resulting in a cash surplus of \$893,469 as of June 30, 2002. The increase in fund balance is attributed to the receipt of LGEDF funds for the community center project that will be expended in future years.

Debt Obligations:

Capital lease principal agreements totaled \$450,106 as of June 30, 2002. Future principal and interest payments of \$542,002 are needed to meet these obligations.

Report Comment:

- The County Should Improve Their Internal Control Procedures

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Debra Eucker, Commissioner, Department of Law, Revenue Cabinet

Honorable L. C. Reese, Lee County Judge/Executive

Members of the Lee County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Lee County, Kentucky, as of June 30, 2002, and the statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Lee County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Lee County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions of Lee County, Kentucky, as of June 30, 2002, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Debra Eucker, Commissioner, Department of Law, Revenue Cabinet
Honorable L. C. Reese, Lee County Judge/Executive
Members of the Lee County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2003, on our consideration of Lee County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Lee County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Should Improve Their Internal Control Procedures

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 30, 2003

LEE COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

L. C. Reese	County Judge/Executive
Billy J. Coomer	Magistrate
Carl Ross	Magistrate
Ronnie P. Begley	Magistrate
Rhonda Brandenburg	Magistrate

Other Elected Officials:

Tom Jones	County Attorney
Authur Noe	Jailer
Russell Stamper	County Clerk
Emma Adams	Circuit Court Clerk
Harvey Pelfrey	Sheriff
Gary Lutes	Property Valuation Administrator
Emmett Daughtery	Coroner

Appointed Personnel:

Pearl Spencer	County Treasurer
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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

LEE COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	
<u>Assets and Other Resources</u>		
<u>Assets</u>		
Cash and Cash Equivalents	\$ 893,469	\$ 893,469
Accounts Receivable (Note 4)	<u>91,586</u>	<u>91,586</u>
Total Assets	<u>\$ 985,055</u>	<u>\$ 985,055</u>
<u>Other Resources</u>		
Amounts to Be Provided in Future Years for:		
Capital Leases (Note 6 A-G)	<u>\$ 450,106</u>	<u>\$ 450,106</u>
Total Other Resources	<u>\$ 450,106</u>	<u>\$ 450,106</u>
Total Assets and Other Resources	<u><u>\$ 1,435,161</u></u>	<u><u>\$ 1,435,161</u></u>

The accompanying notes are an integral part of the financial statements.

LEE COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

	<u>Governmental Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	
<u>Liabilities and Fund Balances</u>		
<u>Liabilities</u>		
Capital Leases (Note 6 A-G)	<u>\$ 450,106</u>	<u>\$ 450,106</u>
Total Liabilities	<u>\$ 450,106</u>	<u>\$ 450,106</u>
<u>Fund Balances</u>		
Fund Balances:		
Unreserved	<u>\$ 985,055</u>	<u>\$ 985,055</u>
Total Equity	<u>\$ 985,055</u>	<u>\$ 985,055</u>
Total Liabilities and Fund Balances	<u>\$ 1,435,161</u>	<u>\$ 1,435,161</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

LEE COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 989,778	\$ 726,427	\$ 175,865	\$ 489,634
Other Financing Sources:				
Transfers In	60,000		100,000	
Kentucky Advance Revenue Program	392,500	24,400		
Total Cash Receipts	<u>\$ 1,442,278</u>	<u>\$ 750,827</u>	<u>\$ 275,865</u>	<u>\$ 489,634</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 923,253	\$ 648,862	\$ 282,969	\$ 124,594
Other Financing Uses:				
Transfers Out	28,737	60,000	466	90,000
Capital Lease:				
Principal Paid	30,731	40,199		
Interest Paid				
Kentucky Advance Revenue Program Repaid	392,500	24,400		
Total Cash Disbursements	<u>\$ 1,375,221</u>	<u>\$ 773,461</u>	<u>\$ 283,435</u>	<u>\$ 214,594</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 67,057	\$ (22,634)	\$ (7,570)	\$ 275,040
Cash Balance - July 1, 2001 *	<u>405,462</u>	<u>70,885</u>	<u>17,964</u>	<u>50,435</u>
Cash Balance - June 30, 2002 *	<u>\$ 472,519</u>	<u>\$ 48,251</u>	<u>\$ 10,394</u>	<u>\$ 325,475</u>

* Cash Balance includes investments.

The accompanying notes are an integral part of the financial statements.

LEE COUNTY
 STATEMENT OF CASH RECEIPTS,
 CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

General Fund Type		Debt Service Fund Type	
Ambulance Fund	Solid Waste Fund	Public Service Corporation Fund	Totals (Memorandum Only)
\$ 572,107	\$ 17,591	\$	\$ 2,971,402
466	9,127	9,610	179,203
			416,900
<u>\$ 572,573</u>	<u>\$ 26,718</u>	<u>\$ 9,610</u>	<u>\$ 3,567,505</u>
\$ 610,853	\$ 26,397	\$	\$ 2,616,928
			179,203
15,992		9,214	96,136
		396	396
			416,900
<u>\$ 626,845</u>	<u>\$ 26,397</u>	<u>\$ 9,610</u>	<u>\$ 3,309,563</u>
\$ (54,272)	\$ 321	\$	\$ 257,942
89,942	839		635,527
<u>\$ 35,670</u>	<u>\$ 1,160</u>	<u>\$ 0</u>	<u>\$ 893,469</u>

The accompanying notes are an integral part of the financial statements.

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Lee County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Public Service Corporation as part of the reporting entity.

The Public Service Corporation is a legally separate entity established to provide debt service for the purchase of real estate property from the Kentucky Mountains Farm Cooperative. The Public Service Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Public Service Corporation as a component unit, and its financial activity has been blended with the Fiscal Court.

Additional - Lee County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Lee County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Lee County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Lee County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Ambulance Fund, and the Solid Waste Fund.

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Service Corporation. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, deferred revenue, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Lee County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Service Corporation Fund (Debt Service Fund) because lease contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture.

The Lee County Fiscal Court has entered into a joint venture with Wolfe and Owsley counties. They have formed the Three Forks Public Properties Corporation, a legally separate organization, in order to sell bonds to build the Three Forks Regional Jail. The Lee County Fiscal Court does not appoint a voting majority of the 10 board members; however, Lee County does appoint 4 members whereas, Wolfe and Owsley counties each appoint 3 members. The Three Forks Public Properties Corporation issued \$6,295,000 of First Mortgage Revenue Bonds for the construction of the regional jail. Each county will be equally liable if the Three Forks Regional Jail doesn't meet the bond payment requirements. Each of the three participants will have joint control in which they have an ongoing financial interest and ongoing financial responsibility. Each county has also guaranteed the Three Forks Regional Jail payment for 15 prisoners at the rate of \$25 a day each even if occupancy is at a lower amount.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Receivable

The county has \$91,586 of accounts receivable in the Ambulance Fund. These accounts receivable are comprised of customer billings.

Note 5. Public Service Corporation - Note Payable

The Public Service Corporation, which is budgeted in the General Fund, assumed a loan balance of \$40,085 from the Kentucky Mountain Farms Co-op due the Kentucky River Point Development Fund Corporation. The Co-op deeded the real estate property to the Public Service Corporation on May 2, 1990. The property was originally purchased with the Community Development Block Grant proceeds of \$200,000 from Lee County Fiscal Court. The Fiscal Court maintains their mortgage position on the property. The Public Service Corporation is to pay \$500 per month until the loan is paid in full. The balance of the loan as of June 30, 2001, was \$9,214. On December 21, 2001, the loan was paid in full.

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 6. Capital Leases

- A. In April 1995, the county entered into a capital lease agreement for \$122,000 with Kentucky Association of Counties Leasing Trust Program for roof repair. The lease was paid in full as of June 30, 2002.
- B. In June 1995, the county entered into a capital lease agreement for \$99,000 with Kentucky Association of Counties Leasing Trust Program for a grader. Terms of the agreement stipulate a ten-year repayment schedule, with variable monthly interest payments and variable annual principal payments. The principal amount is due on January 20 of each year to end on January 20, 2005. As of June 30, 2002, the principal was \$35,000. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 1,826	\$ 11,000
2004	1,140	12,000
2005	<u>420</u>	<u>12,000</u>
Totals	<u>\$ 3,386</u>	<u>\$ 35,000</u>

- C. In July 1997, the county entered into a capital lease agreement for \$71,000 with Kentucky Association of Counties Leasing Trust Program for a truck and a backhoe. Terms of the agreement stipulate a ten-year repayment schedule, with variable monthly interest payments and variable annual principal payments. The principal amount is due on January 20 of each year to end on January 20, 2007. As of June 30, 2002, the principal was \$29,000. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 1,513	\$ 5,000
2004	1,207	6,000
2005	868	6,000
2006	532	6,000
2007	<u>196</u>	<u>6,000</u>
Totals	<u>\$ 4,316</u>	<u>\$ 29,000</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 6. Capital Leases (Continued)

- D. In September 1999, the county entered into a capital lease agreement for \$43,945 with Kentucky Association of Counties Leasing Trust Program for voting machines. Terms of the agreement stipulate a five-year repayment schedule, with variable monthly interest payments and variable monthly principal payments. As of June 30, 2002, the principal was \$20,892. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 664	\$ 9,070
2004	223	9,424
2005	12	2,398
Totals	<u>\$ 899</u>	<u>\$ 20,892</u>

- E. In July 2000, the county entered into a capital lease agreement for \$48,510 with Kentucky Association of Counties Leasing Trust Program for a brush cutter. Terms of the agreement stipulate a five-year repayment schedule, with variable monthly interest payments and variable monthly principal payments. As of June 30, 2002, the principal was \$31,251. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 1,063	\$ 9,643
2004	502	10,213
2005	193	10,506
2006	2	889
Totals	<u>\$ 1,760</u>	<u>\$ 31,251</u>

- F. In June 2001, the county entered into a capital lease agreement for \$49,955 with Kentucky Association of Counties Leasing Trust Program for an ambulance. Terms of the agreement stipulate a three-year repayment schedule, with variable monthly interest payments and variable monthly principal payments. As of June 30, 2002, the principal was \$33,963. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Ambulance Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 1,038	\$ 16,642
2004	287	17,321
Totals	<u>\$ 1,325</u>	<u>\$ 33,963</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 6. Capital Leases (Continued)

- G. In May 2002, the county entered into a capital lease agreement for \$300,000 with Kentucky Association of Counties Leasing Trust Program for road paving. Terms of the agreement stipulate a ten-year repayment schedule, with variable monthly interest payments and variable annual principal payments. The principal amount is due on January 20 of each year to end on January 20, 2012. As of June 30, 2002, the principal was \$300,000. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 14,911	\$ 25,000
2004	12,889	25,000
2005	11,671	25,000
2006	10,352	30,000
2007	8,890	30,000
2008-2012	<u>21,497</u>	<u>165,000</u>
Totals	<u>\$ 80,210</u>	<u>\$ 300,000</u>

Note 7. Insurance

For the fiscal year ended June 30, 2002, Lee County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

LEE COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,223,267	\$ 989,778	\$ (233,489)
Road and Bridge Fund	677,750	726,427	48,677
Jail Fund	286,790	175,865	(110,925)
Local Government Economic Assistance Fund	329,081	489,634	160,553
Ambulance	572,144	572,107	(37)
Solid Waste	25,377	17,591	(7,786)
Totals	<u>\$ 3,114,409</u>	<u>\$ 2,971,402</u>	<u>\$ (143,007)</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 3,114,409
Add: Budgeted Prior Year Surplus	552,500
Less: Other Financing Uses	<u>(506,296)</u>
Total Operating Budget Per Comparative Schedule of Final Budget and Budgeted Expenditures	<u>\$ 3,160,613</u>

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SCHEDULE OF OPERATING REVENUE

LEE COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>GOVERNMENTAL FUND TYPES</u>	
<u>Revenue Categories</u>	<u>General Fund Type</u>
Taxes	\$ 534,062
In Lieu Tax Payments	27,609
Excess Fees	3,791
Licenses and Permits	30,173
Intergovernmental Revenues	1,666,323
Charges for Services	546,590
Miscellaneous Revenues	127,159
Interest Earned	<u>35,695</u>
Total Operating Revenue	<u>\$ 2,971,402</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

LEE COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 622,289	\$ 658,897	\$ (36,608)
Protection to Persons and Property	829,595	841,399	(11,804)
General Health and Sanitation	25,815	50,307	(24,492)
Social Services	16,250	14,850	1,400
Recreation and Culture	675	5,158	(4,483)
Roads	576,861	620,918	(44,057)
Debt Service	6,266	16,685	(10,419)
Capital Projects	604,000	119,272	484,728
Administration	478,862	289,442	189,420
Total Operating Budget - General Fund Type	\$ 3,160,613	\$ 2,616,928	\$ 543,685
Other Financing Uses:			
Borrowed Money-			
Kentucky Advanced Revenue Program - Principal	416,900	416,900	
Transfers to Public Service Corporation Fund		9,610	(9,610)
Capital Lease Agreements- Principal on Leases	89,396	86,922	2,474
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 3,666,909</u>	<u>\$ 3,130,360</u>	<u>\$ 536,549</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Debra Eucker, Commissioner, Department of Law, Revenue Cabinet

Honorable L. C. Reese, Lee County Judge/Executive

Members of the Lee County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Lee County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated September 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Lee County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lee County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Lee County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comment and recommendation.

- The County Should Improve Their Internal Control Procedures



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 30, 2003

COMMENT AND RECOMMENDATION

LEE COUNTY
COMMENT AND RECOMMENDATION

For The Fiscal Year Ended June 30, 2002

REPORTABLE CONDITION

The County Should Improve Their Internal Control Procedures

The Department for Local Government requires the judge/executive to keep certain records and make certain reports. These duties include:

- receiving all claims, and preparing a master claim list to present to the fiscal court
- preparing all checks
- maintain an appropriation ledger
- being responsible for the county's quarterly report
- reconciling appropriation ledger to the treasurer's appropriation ledger
- issuing purchase orders and maintaining a purchase order log
- maintaining time records(vacation/sick).

The Treasurer is currently completing these procedures. Someone other than the Treasurer should implement the above duties. This would help strengthen controls.

The County has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the county has limited options for establishing an adequate segregation of duties. We recommend the following compensating controls be implemented to offset this internal control weakness:

- An independent person should list all receipts and agree them back to the treasurer's receipt ledger.
- An independent person should compare fiscal court order approvals to invoices and cancelled checks.

County Judge/Executive L. C. Reese's Response:

Ok.

NONCOMPLIANCES

None.

PRIOR YEAR FINDINGS

None.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

LEE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

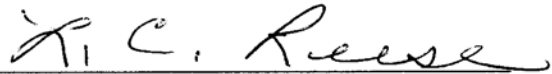
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

LEE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

The Lee County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



L.C. Reese
County Judge/Executive



Pearl Spencer
County Treasurer